

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS - COMPLIANCE	
Mail Log	2-3
Separation of Duties - Disbursements	3
Bank Reconciliation	3-4
Payment Authorization Files	4
Monthly Closing of Books	4-5
Controlled Document Reconciliation	5
Medical Transportation Payments	5
Obsolete Controlled Documents	5-6
Security Officers Log Report (PD-180)	6
Cash Reserve File	6
Separation of Duties - Accounts Receivable	7
Automated Recoupment Reconciliation	7
Accounts Receivable Reconciliation Report	7-8
RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS	
Backup Designated Staff Person	8

INTRODUCTION

The Office of Internal Audit performed an audit of Baraga County FIA for the period October 1, 1997 through October 23, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that agency assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Baraga County FIA had 16 full time equated positions (FTE's) at the time of our review. Baraga County FIA provided assistance to an average 675 recipients per month during FY 1997, with total assistance payments of \$969,056 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Baraga County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Phone Usage	Payroll
SER Payments	Medical Transportation

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Baraga County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Baraga County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated November 6, 1998 that they are in general agreement with the report, and implemented corrective action for most items effective November 1, 1998.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Baraga County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Mail Log

1. The Baraga County FIA mail clerk did not prepare the Record and Disposition of Checks/Warrants (FIA-61) for returned warrants and food stamps at the time the mail was opened. Instead, all items were entered into a book, then the negotiables were forwarded to fiscal. The bookkeeper then prepared the FIA-61. Accounting Manual Item 431 requires that all returned warrants and food coupons be recorded on the FIA-61 at the time the mail is opened, the two mail clerks sign the log, forward the original to the fiscal office, and maintain a copy in the mailroom. The FIA-61 log provides an audit trail to ensure that all cash and negotiables received are properly accounted for.

WE RECOMMEND that the Baraga County FIA mail clerks prepare the FIA-61, maintain a copy, and forward the original to the fiscal clerk with the cash and negotiable instruments.

Separation of Duties - Disbursements

2. Baraga County FIA did not properly separate the cash disbursement duties. Our review disclosed that the same employee who had control of the blank check inventory also was authorized to sign checks. This same individual also performed the bank reconciliation. Accounting Manual Item 410 states that for internal control purposes, the person responsible for signing the checks should not have control of the blank check inventory. Accounting Manual Item 405 states that for internal control purposes an independent person should perform the bank reconciliation.

WE RECOMMEND that Baraga County FIA have an employee independent of the check signing process control of the blank check inventory.

WE ALSO RECOMMEND that Baraga County FIA have an independent person perform the bank reconciliation.

Bank Reconciliation

3. At Baraga County FIA the individual who performed the bank reconciliation did not sign the Bank Reconciliation (FIA-3674). The FIA-3674 provides spaces for the reconciler and his/her supervisor to sign. The preparer should sign the FIA-3674 to indicate his/her certification that the account has been properly reconciled. The supervisor was signing the FIA-3674.

WE RECOMMEND that Baraga County FIA have the preparer sign the FIA-3674.

Payment Authorization Files

4. Baraga County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) and Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in date order attached to the Transaction Control Listing (MA-010) and the FIA-849's attached to the FIA-849 Issuance Report (ES-440). Maintaining the FIA-13's and FIA-849's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's and FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that Baraga County FIA maintain FIA-13's and FIA-849's in either alphabetical or case number order.

NOTE: Baraga County FIA began filing the FIA-849's and FIA-13's in alpha order while the auditor was on site.

Monthly Closing of Books

5. Baraga County FIA did not close its books monthly, as required by Accounting Manual Item 402. Instead the local office closed them once a year at the end of the fiscal year. Closing the books at the end of each month helps prevent unauthorized transactions from being entered at a late date to avoid detection.

WE RECOMMEND that Baraga County FIA close its books each month when the monthly reports are prepared.

Controlled Document Reconciliation

6. Baraga County did not have the preparer's supervisor sign the Monthly Controlled Document Inventory and Reconciliation (FIA-4351), as required by Accounting Manual Item 403. Having the preparer's supervisor sign the FIA-4351 provides documentation that the supervisor reviewed the reconciliation to ensure its accuracy.

WE RECOMMEND that Baraga County FIA have the preparer's supervisor sign the FIA-4351.

Medical Transportation Payments

7. Baraga County FIA did not always maintain an up to date Medical Needs Statement (FIA-54A) for clients receiving medical transportation, as required by Accounting Manual Item 416 and Program Administrative Manual Item 825. We reviewed 10 cases where medical transportation payments were made and found one had no FIA-54A on file and 2 had FIA-54A's on file that were more than one year old. The FIA-54A is necessary to document the need for medical transportation.

WE RECOMMEND that Baraga County FIA maintain updated FIA-54A's to support all Medical Transportation payments.

Obsolete Controlled Documents

8. Baraga County FIA had obsolete Medical Assistance Authorization Forms (DSS-1549), Food Stamp Temporary I.D. Cards (FIA-183A) and Medical Authorizations (FIA-2162) on hand. Accounting Manual Item 403 gives instructions for the destruction of obsolete forms. Keeping obsolete forms on hand increases the risk of these forms being used inappropriately.

WE RECOMMEND that Baraga County FIA destroy the obsolete forms FIA-1549, FIA-183A and FIA-2162 in accordance with the instructions in Accounting Manual Item 403.

Security Officers Log Report (PD-180)

9. Baraga County FIA did not reconcile the Security Officers Log Report (PD-180) to the CIS Security Agreements (FIA-3974A's), as required by Family Independence Agency L-Letter L-97-063. This reconciliation is necessary to ensure that all changes made are accurate and appropriate

WE RECOMMEND that Baraga County FIA reconcile the PD-180 report to revised Security Agreements.

Cash Reserve File

10. Baraga County FIA did not maintain a Cash Reserve File as required by Accounting Manual Item 402.6. Maintaining a file with documentation for its establishment and transactions affecting Cash Reserve will ensure that the cash reserve is appropriately documented and accounted for.

WE RECOMMEND that Baraga County FIA establish and maintain a Cash Reserve file as required by Accounting Manual Item 402.6.

Separation of Duties - Accounts Receivable

11. Baraga County FIA was not properly separating duties in the accounts receivable function. One clerk was responsible for the entire accounts receivable function, and there was no independent review of the work. Accounting Manual Item 480 requires that the duties of collecting, posting, and reconciling accounts receivable be separated, or that the accounts receivable function be reviewed by an independent supervisor who is not involved in this function. Separating accounts receivable duties or having an independent review of the work helps to ensure the accuracy of the accounts receivable.

WE RECOMMEND that Baraga County FIA either separate the accounts receivable duties or have an independent supervisor perform a review of the process.

Automated Recoupment Reconciliation

11. Baraga County FIA was not reconciling the Monthly Automated Recoupment System Reports (GH-280, Recoupment Activity Report, GH-370, Cash Reconciliation Report and the GH-380 Monthly Write Off Report), as required by Accounting Manual Item 480. The local office received the reports and filed them rather than forwarding them to the bookkeeper for reconciliation purposes.

WE RECOMMEND that Baraga County FIA reconcile the Monthly Automated Recoupment System Reports.

Accounts Receivable Reconciliation Report

12. Baraga County FIA was not preparing the Accounts Receivable Reconciliation Report on a monthly basis as required by Accounting Manual Item 480, instead the reports were run at the end of the fiscal year. Preparing the monthly reports timely will provide an audit trail to verify that all receivables and payments received were properly recorded.

WE RECOMMEND that Baraga County FIA prepare the Accounts Receivable Reconciliation Report on a monthly basis.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Baraga County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Backup Designated Staff Person

13. Baraga County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Baraga County FIA appoint a backup DSP for IRS information security.

NOTE: A backup DSP was appointed while the auditor was on site.

Change in Safe Combination

14. Baraga County FIA did not change the combination to the safe after an employee left four years ago. For internal control purposes, the combination to the safe should be changed when an employee who knows the combination terminates employment or changes positions.

WE RECOMMEND that Baraga County FIA change the combination to the safe.